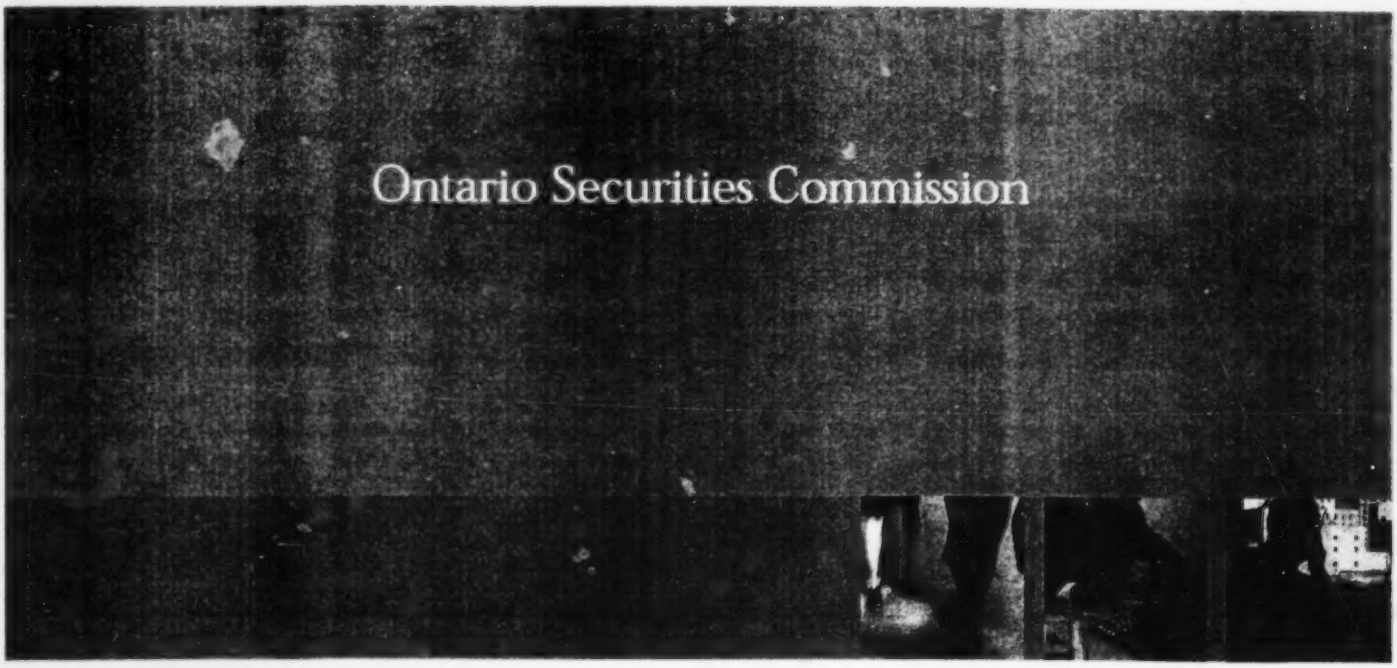

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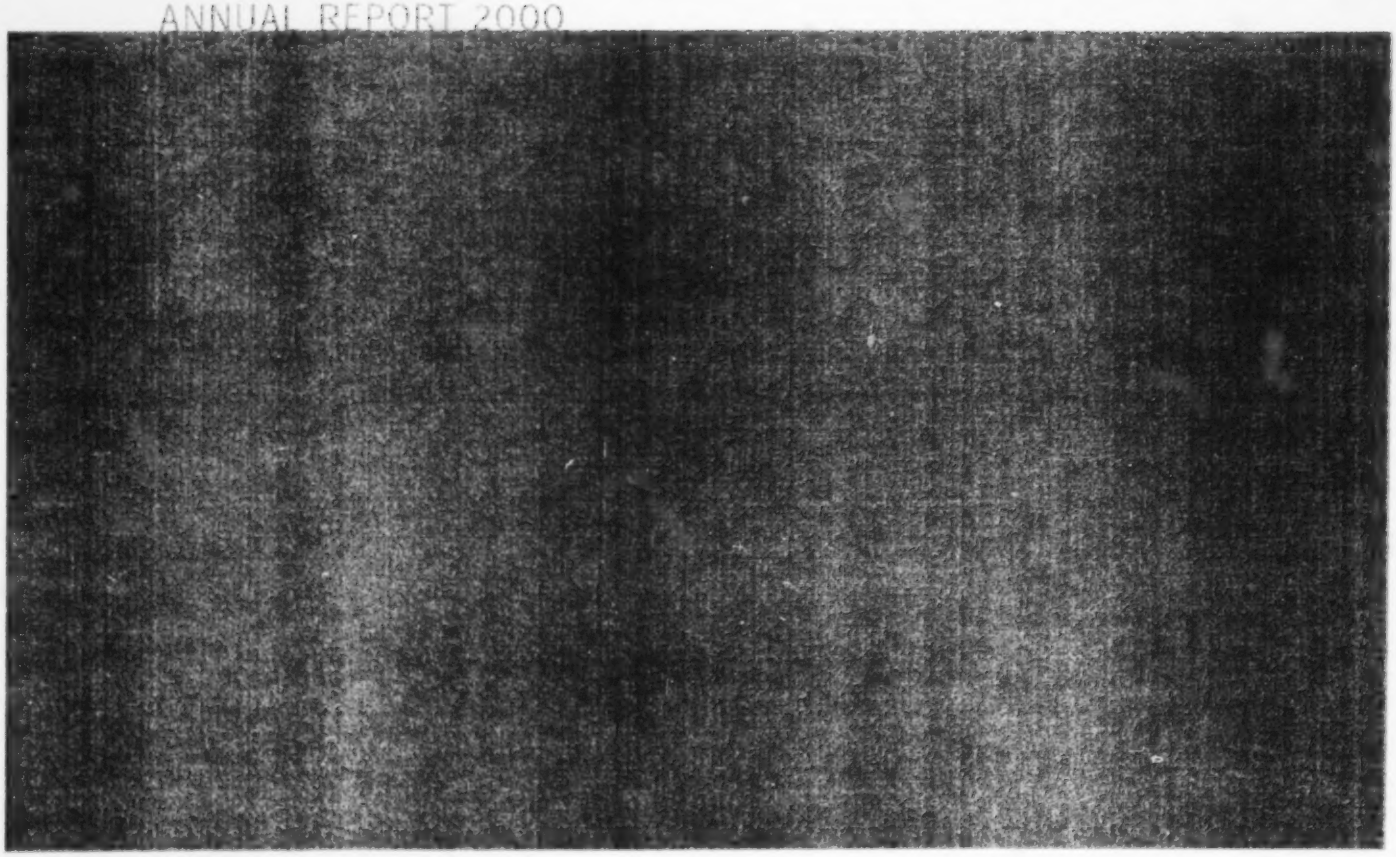

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Vision, Mandate & Strategy

VISION > To be recognized as a regulator that establishes standards and aggressively enforces clear and unambiguous rules to protect investors, while at the same time ensuring efficient capital markets for compliant users.

MANDATE > To protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets in Ontario and confidence in their integrity.

STRATEGY > To be efficient and proactive in carrying out our mandate. to be intelligently aggressive in applying the rules of the marketplace. to be innovative in applying our regulatory powers to a rapidly changing marketplace.

Who We Are. What We Do.

As the regulatory body responsible for overseeing the securities industry in Ontario, the Ontario Securities Commission administers the Securities Act, the Commodity Futures Act and certain provisions of the Ontario Business Corporations Act. To effectively carry out its mandate, the Commission is organized into seven core branches.

CAPITAL MARKETS > Encompassing Market Regulation, Compliance, Registration and Investment Funds, the Capital Markets branch is responsible for the regulation of registrants, investment products, markets, and clearing and settlement systems.

CORPORATE FINANCE > Responsible for the regulation of public companies, the Corporate Finance branch oversees offerings and financings; continuous disclosure filings; take-over bids, mergers and acquisitions; and all related administration and document management.

ENFORCEMENT > With the objective of protecting investors and promoting market integrity, the Enforcement branch ensures that Ontario securities laws are upheld through equitable and effective enforcement.

CORPORATE RELATIONS > Working closely with OSC branches, the Corporate Relations branch ensures that the Commission's stakeholders are well informed of OSC activities, directives and policy advances through effective communications.

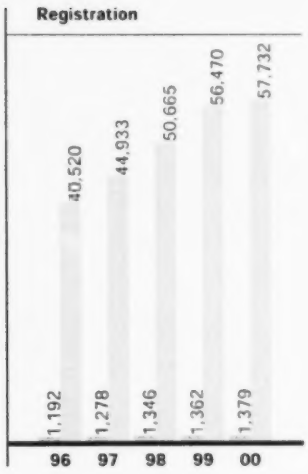
CORPORATE SERVICES > By building and maintaining the core internal systems and infrastructure, the Corporate Services branch helps the Commission's constituents to work effectively and efficiently with OSC programs and initiatives.

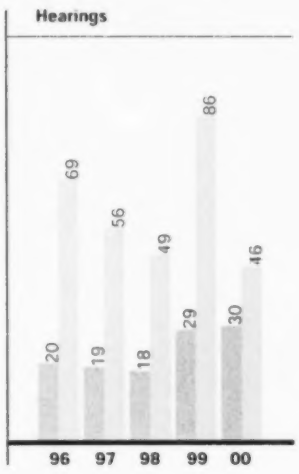
OFFICE OF THE GENERAL COUNSEL > Participating in policy development and supporting OSC branches, the Office of the General Counsel provides leadership on legal and policy issues.

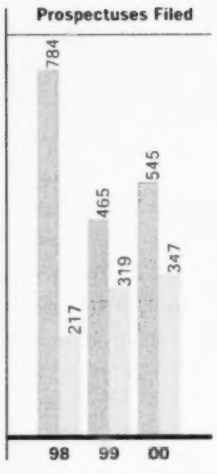
OFFICE OF THE CHIEF ACCOUNTANT > Providing expertise on accounting and policy issues to OSC branches and reporting issuers, the Office of the Chief Accountant also participates in policy development and provides support to OSC projects.

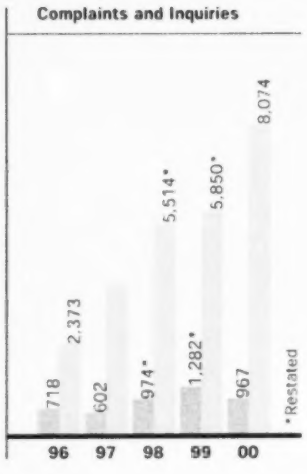
Five Year Statistical Summary

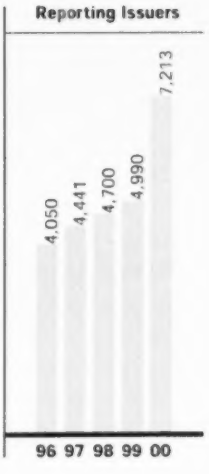
Fiscal Year Ending March 31, 2000











1. It should be noted that this chart includes short form prospectuses and may include prospectuses which were withdrawn or for which the director refused to issue a final receipt.

2. In most cases a prospectus qualifies more than one fund issuer. These numbers represent 2,236 mutual funds – 474 of which were newly created in fiscal 1999/2000. There were 93 amendment filings for mutual fund prospectuses.

Commission Members

The twelve-member governing body of the Ontario Securities Commission also serves as the Board of Directors for the Commission. Their responsibilities include approving policy, making recommendations regarding legislative changes to the Minister of Finance, serving on Commission tribunals, and overseeing the operational and financial affairs of the Commission. The diverse range of experience and tremendous dedication of Commission members make them an exceptional resource.

1. DAVID A. BROWN, Q.C.
Appointed Chair of the Commission in 1998.
A former senior corporate law partner with Davies Ward & Beck, Mr. Brown, in addition to his full-time role as OSC Chair, is Chair of IOSCO's Technical Committee and a senior member of the Canadian Securities Administrators. He was appointed Queen's Counsel in 1984.

2. JOHN A. GELLER, Q.C.
Appointed Vice-Chair of the Commission in 1993.
Appointed a Queen's Counsel in 1967, Mr. Geller was a Senior Partner practicing corporate and securities law at Fasken Campbell Godfrey until 1993. He acted as Interim Chair of the Commission from November 1996 to April 1998. His current appointment expires on October 31, 2000.

3. HONOURABLE HOWARD I. WETSTON, Q.C.
Appointed Vice-Chair of the Commission in 1999.
A member of the Ontario and Alberta Bars, Mr. Wetston was appointed Queen's Counsel in 1990 and has extensive experience in economic regulation and administrative law. Most recently he was a Judge of the Federal Court of Canada. His current appointment expires on January 13, 2004.

4. KERRY D. ADAMS, FCA
Appointed 1996. A former partner in the financial institutions branch of KPMG, and past General Manager, Investment Banking for ScotiaBank, Ms. Adams is President of K. Adams & Associates. Her current appointment expires on September 10, 2000.

5. STEPHEN N. ADAMS, Q.C.
Appointed 1996. Called to the Ontario Bar in 1968, and appointed Queen's Counsel in 1981, Mr. Adams is currently Counsel at the law firm McCarthy Tetrault. His current appointment expires on October 31, 2001.

6. DEREK BROWN, LL.B.
Appointed 1997. Former Vice President and Director of RBC Dominion Securities Inc., Mr. Brown is currently Adjunct Professor of Finance at the Rotman Centre for

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Management of the University of Toronto. His current appointment expires on October 31, 2002.

7. MORLEY P. CARSCALLEN, FCA
Appointed 1992. A former senior partner with the accounting firm Coopers & Lybrand, Mr. Carscallen served as Vice-Chair of the Commission between July 1996 and November 1998. His current appointment expires on November 19, 2000.

8. ROBERT DAVIS, FCA
Appointed 1999. Currently president of Camiton Inc., Mr. Davis is a former Chief Operating Partner of the accounting firm Peat Marwick Mitchell. His current appointment expires on November 28, 2002.

9. JOHN (JAKE) F. HOWARD, Q.C.
Appointed 1996. A member of the Ontario, Saskatchewan and Alberta Bars, Mr. Howard was appointed Queen's Counsel in 1966 and is presently a partner emeritus with the law firm Blake Cassels & Graydon. His current appointment expires on October 31, 2000.

10. ROBIN W. KORTHALS, MBA
Appointed 1995. Currently Chairman of the Ontario Teacher's Pension Plan Board, Mr. Korthals served as President of the Toronto-Dominion Bank from 1981 to 1995. Current Appointment Expires: April 1, 2002.

11. THERESA (TERRY) MCLEOD, MBA, C.F.A.
Appointed 1999. A former investment banker with Pitfield, Mackay, Ross & Company, Merrill Lynch Canada Inc. and ScotiaMcLeod Inc., Mrs. McLeod is currently the president of McLeod Capital Corporation. Her current appointment expires on October 27, 2002.

12. R. STEPHEN PADDON, Q.C.
Appointed 1998. Counsel at the law firm Bennett Jones, Mr. Paddon is a former Vice President and General Counsel of Crownx Inc. and Crown Life Insurance Company. He was appointed Queen's Counsel in 1972. His current appointment expires on February 1, 2003.

A renewed commitment to high professional standards has marked John Stevenson's first year as the new Secretary to the Commission. The Secretary's Office acts as liaison between the Commission members, OSC staff and the public as well as Corporate Secretary and registrar for the OSC.

Retiring from the OSC this year are Helen Meyer, a Commissioner from 1994 to 1999, and G. Patrick H. Vernon, a Commissioner from 1995 to 1999. Their significant contributions to the Commission are well recognized and greatly appreciated.

A Message from the Chair

DAVID A. BROWN, Q.C.
Chair

SIGNIFICANT ACCOMPLISHMENTS AMIDST A CLIMATE OF CHANGE

In Ontario and across Canada, consumer demands, advances in technology and heightened competition have contributed to a remarkable acceleration in the rate of change within both the financial services sector and the capital markets. During the past year, there also has been considerable change within the OSC as we worked to complete our own reorganization begun the previous year. Our staff is to be congratulated for their exceptional efforts -- in what can only be described as a very challenging and dynamic environment, they have achieved significant results.

A New Regulatory Framework is Emerging

The coming together of technological innovation and increasing consumer pressures has prompted radical changes in the products and services offered by financial services companies. Today banks, brokers, insurance companies and trust companies are all competing with one another, offering a similar range of products and services.

The existing regulatory framework is being redefined and traditional boundaries redrawn to ensure a common regulatory platform for like products and services. To this end, the OSC has actively participated in the joint forum of insurance, pension and securities regulators, and this group has made substantial progress identifying gaps in regulation, eliminating duplication and working towards a harmonization of rules.

But co-operation among regulators, though an essential first step, cannot address these issues quickly enough to satisfy the demands of a rapidly evolving marketplace. Appropriate action would be greatly facilitated by combining regulatory approaches and cultures. We therefore welcome the leadership of Ontario Finance Minister Ernie Eves, with the announcement in his recent budget that the OSC and the Financial Services Commission of Ontario will be merged to create a single financial services regulator. I believe the merger will deliver stronger protection for consumers and more efficient regulation of the financial services marketplace.

Prompting Improved Financial Disclosure

Enhancing the credibility of the financial information disclosed by reporting issuers remains a high priority for the Commission. Having access to reliable financial information is fundamental to the efficient workings of the capital markets. Yet the public's confidence in this information has been eroded. The OSC believes that two issues must be addressed if this confidence is to be restored: the independence of auditors when significant non-audit services are provided to audit clients, and the mandate and composition of corporate audit committees.

We are pleased that both the national and provincial accounting institutes are actively addressing the independence issue and that The Toronto Stock Exchange and the Canadian Institute of Chartered Accountants and the Canadian Venture Exchange have established a joint committee to examine issues of corporate governance. I look forward to receiving our stakeholders' recommendations and to working with them to better protect investors and strengthen the capital markets by improving the quality of financial disclosure.

The Growing Ranks of Individual Investors

One of the most revolutionary changes in the capital markets is the growth in the number of individual investors who are investing without the guidance of a broker. This trend has significant implications for securities regulators. Suitability rules, which ensure brokers execute appropriate trades for a client's objectives and financial circumstances, are no longer necessary when investors make their own decisions. New rules have been developed through the Canadian Securities Administrators (CSA) to remove the suitability requirement for brokers who provide order execution service only.

Investor education takes on greater importance as more and more individual investors elect to serve themselves. Our soon to be created Investor Education Foundation will support educational initiatives designed to deepen the knowledge and sophistication of Ontario's investing public. The Foundation will be funded with the proceeds from the settlement of enforcement actions.

The Importance of Global Regulation

The speed and anonymity of the Internet, combined with the increased globalization of capital markets, present considerable challenges to national and domestic regulators. During the past year, several milestones were reached by national regulators working together to regulate and police this global phenomenon.

The OSC also has a significant presence on the world stage, particularly through the International Organization of Securities Commissions (IOSCO) and the Counsel of Securities Regulators of the Americas (COSRA). Within these organizations we have been working towards common standards and common approaches across markets. By pooling resources in policy development, and in surveillance and enforcement, we have been able to further harmonize cross-border regulation.

Our Chief Accountant played an important role in a project to recognize accounting standards issued by the International Accounting Standards Committee for cross-border issues of securities. Agreement was obtained at the international level last year and the next step is to implement these standards in Canada.

Strengthening National Regulation

The OSC has been very active in establishing the CSA as a truly national regulator. The CSA is responsible for administering the Canadian Securities Regulatory System, a harmonized body of securities laws which governs most aspects of securities and capital markets in Canada. Through the CSA, the Commission works with other securities commissions to develop policies and rules that apply nationwide. During the past year, 11 rules and policies were adopted across Canada and today, a significant percentage of rules developed at the OSC are done in conjunction with the CSA.

Other national initiatives include a National Insider Trading Registry, which will allow investors to register insider trades via the Internet across all Canadian jurisdictions with a single entry, and the development of a national registration database. This latter development will allow registrants to satisfy requirements nationwide by registering on-line with a single entry.

1999/2000 will be remembered as a year of significant advances in a climate of accelerating change. I am extremely pleased and proud of what the OSC has been able to accomplish over the past year. None of it would have been possible without the commitment and collective expertise of our Commissioners. I want to recognize the valuable contribution and wise counsel of Commissioners Helen Meyer and Patrick Vernon, both of whom retired from the Commission after many years of service, and welcome Commissioners Robert Davis and Terry McLeod who recently joined the Commission. The hard work, support and expert counsel of our Commissioners will continue to be of tremendous value as the OSC takes on new challenges in the year ahead.

D A Brown (signed)

DAVID A. BROWN, Q.C.
Chair, Ontario Securities Commission

A Message from the Executive Director

CHARLES F. MACFARLANE
Executive Director

DELIVERING ON OUR PROMISES

The 1999/2000 fiscal year was one of rapid growth, tremendous accomplishments and significant progress at the OSC. Throughout this annual report you will find much evidence of what the OSC has achieved over the past year, in terms of advancing our mandate, meeting the needs of our constituent community and addressing the changes in today's capital markets.

Applying our Resources

The long-term benefits of our status as a Crown Corporation are now being felt throughout the Commission. The OSC has always been very clear as to how we would allocate resources once adequate funding was assured. A key priority for us was to begin the process of aligning our revenues more closely with our costs. As a first step, we conducted a preliminary evaluation of the OSC's fee structure which revealed not only that fees needed to be reduced in total but that a more equitable distribution among our stakeholders was also appropriate. By working in close consultation with market participants, we have initiated a dialogue aimed at developing a revised fee structure for implementation next summer. However, acknowledging a commitment we made to our constituents, we applied a 10% reduction in August 1999 with a further 10% reduction in June 2000.

Sufficient financing has also allowed us to pursue an aggressive recruitment program for both existing as well as new branches. This has resulted in an overall addition of 120 new employees – an impressive 67% increase in our personnel since we began our current recruitment drive. Staff of the OSC deserve tremendous credit for continuing to maintain a high level of productivity during this time of change and renewal.

As we have grown, it was Enforcement that was arguably affected the most. Again, hiring more staff for this branch was an important goal as we campaigned for self funding. Our Enforcement branch has grown by an impressive 75% from this time last year. As well, a promise to provide a more rigorous review of continuous disclosure filings has led to the expansion of our Continuous Disclosure team from two to 20 members. In addition, we substantially increased the number of people working in the Investment Funds area, and we more than doubled the staff in the Inquiries branch.

Committed to Continuous Improvement

Good organizations become great organizations through incremental, ongoing improvements. At the OSC, we have been able to make substantial progress through streamlining existing procedures and implementing more efficient processes. The results of our efforts can be found in a number of key areas.

- We have completely redesigned the process of case management within the Enforcement branch. To more effectively allocate resources and focus enforcement activities, cases are pre-screened based on established criteria to determine which cases warrant investigation. Our comprehensive case tracking system ensures that we know the status of cases under investigation at any point in time.
- Our Project Office, which tracks and controls the more than 100 projects done on behalf of the OSC or in partnership with the CSA, ensures that our

efforts and resources are dedicated to those activities that promise the greatest impact.

- By taking advantage of the developments in Internet technology and usage, we have made significant improvements to our web site, developing an electronic gateway to the OSC.
- Our Inquiries branch has gone through extensive training and process redesign. As a result, written, electronic and telephone contact with the OSC has improved dramatically.

Responsive to Stakeholder Needs

Meeting the needs of our stakeholders is vital to achieving our mandate. Last year we commissioned a sizeable benchmark survey of the stakeholder community to determine their views of the OSC's performance, and to identify opportunities for improvement. The key findings of this survey are highlighted on page 10. While there is room for improvement, the results are very encouraging – only two percent of the sample surveyed, including registrants and reporting issuers, had a negative opinion of the OSC.

The survey results revealed an important opportunity for the OSC. Although our ratings in most areas were good, and we have made significant gains since a similar survey was conducted two years ago, a portion of respondents expressed a neutral attitude towards the OSC. Our challenge going forward is to improve these numbers by demonstrating the many positive ways in which the OSC has changed and continues to work toward improving the experience of dealing with us.

Being responsive to the needs of our stakeholders includes anticipating and pro-actively responding to changes in the marketplace. During the past year, the OSC began to address several emerging issues including alternative trading systems and Internet trading – two trends that promise to change the shape of our financial markets.

Towards Streamlined, Efficient Regulation

One of the most profound changes at the OSC has been our adoption of a business-oriented, results-based culture. Throughout the OSC, staff members have been encouraged to question rules and regulations, looking for ways to eliminate unnecessary steps in the regulatory process, shortening time frames, and delivering more effective solutions. For example, our process of pre-screening prospectuses to identify the degree of review required is being considered for continuous disclosure records. We have totally restructured the Secretary's Office to provide a more effective liaison between the Commissioners, OSC staff and our stakeholders. Our plans call for our Compliance branch to undergo the same degree of reengineering as the Enforcement branch recently experienced and we are continuing to enhance our web site, paving the way for a virtually paperless OSC.

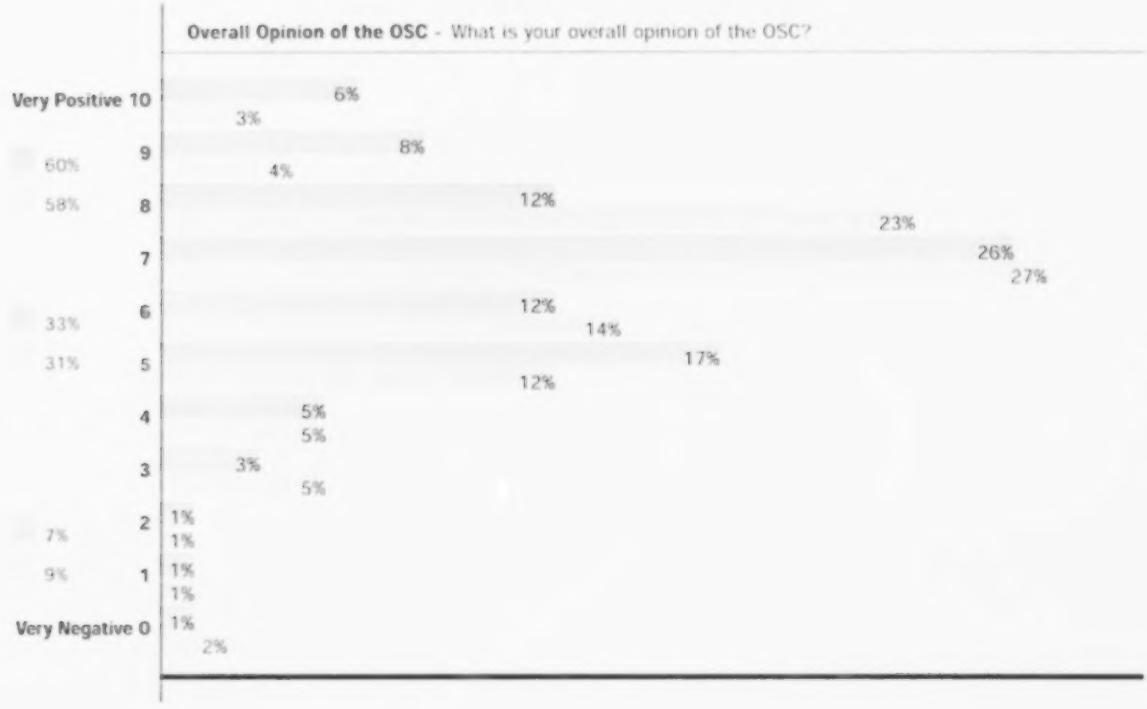
Over the course of 1999/2000, the OSC has delivered on many promises and made substantial progress on a number of fronts. Much of the credit for our achievements must go to the dedicated professionals who make up the staff of the OSC. Although there is more work to be done, I am confident that with our highly capable team in place and the progress we've made this year, the OSC is more than ready for the challenges ahead.

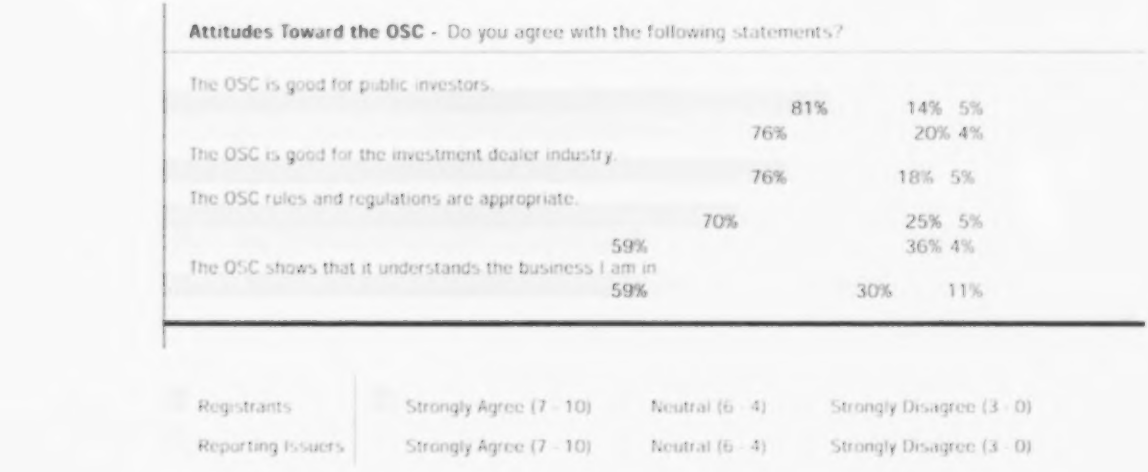
C F Macfarlane (signed)

CHARLES F. MACFARLANE
Executive Director, Ontario Securities Commission

The Stakeholder Satisfaction Survey

The OSC commissioned a comprehensive survey of its stakeholders. The respondents included Registrants, Reporting Issuers, Lawyers, Accountants and Retail Investors. *All respondents: Registrants: n=601, Reporting Issuers: n=302*





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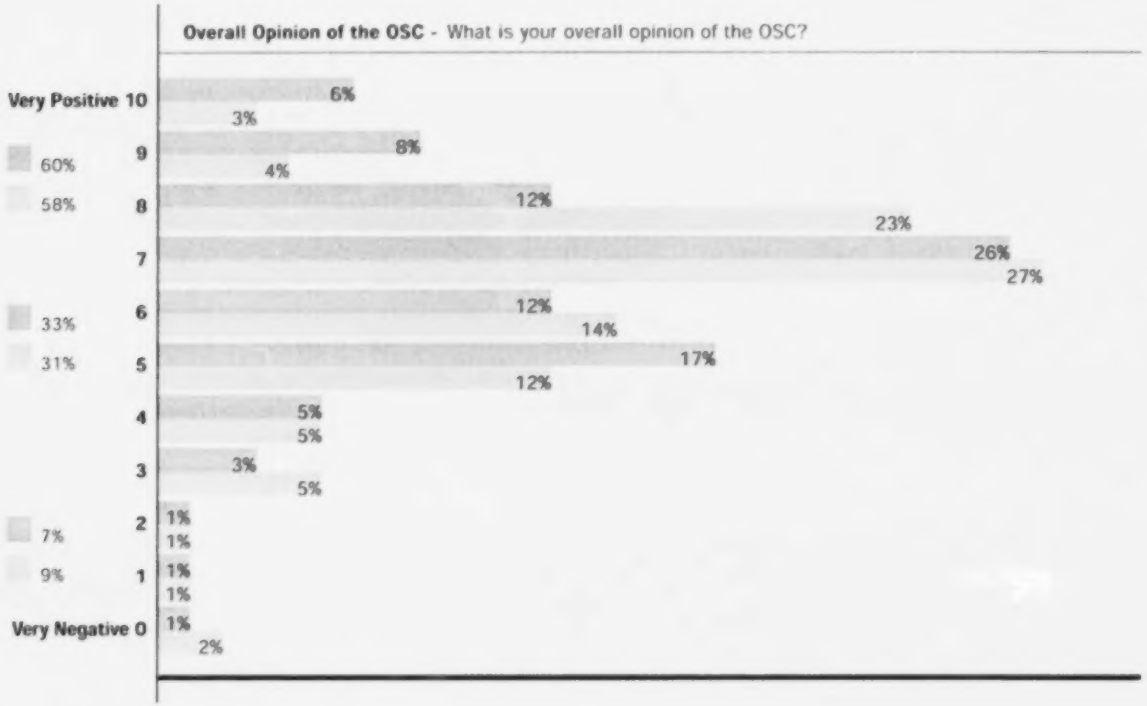
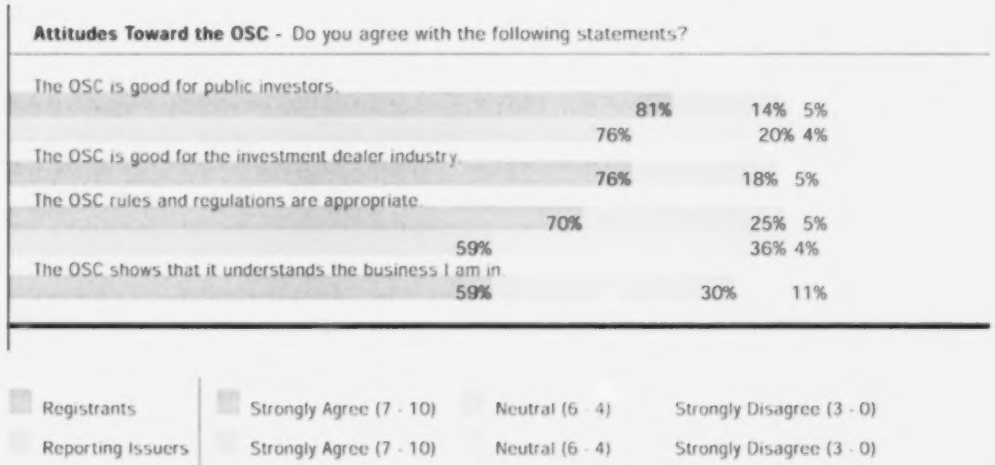




Strategic Considerations, Challenges and Priorities

The OSC recognizes the challenges in its operating environment that it must address to achieve its goals. These challenges are not unique to the OSC and take the form of changes to the business environment, capital markets, market participants and the regulatory framework.

GLOBAL INTEGRATION OF MARKETS AND RAPID PACE OF TECHNOLOGICAL CHANGE

Increasingly, the business environment is subject to global influences where firms are being serviced by integrated banking, insurance and securities conglomerates which operate across borders. Technology is driving market innovation and facilitating the creation of more sophisticated financial products, trading techniques and strategies. Competition from alternative trading systems is a catalyst for market restructuring.

REDEFINITION OF ROLES OF REGULATORS OF FINANCIAL SERVICES

Relaxation of restrictions on the types of financial products offered by various financial service providers has caused instances of regulatory overlap, gaps in regulatory coverage, and a need to harmonize regulation of like products. As a result, there is a need to redefine the mandates and activities of financial regulators.

RAPID GROWTH OF MARKET FOR INVESTMENT FUNDS

Activity is at record levels in the investment fund sector. Investors are becoming more active in seeking information and education about their investments. Investment funds are becoming an increasingly prominent component of retirement plans. Continued growth and a proliferation of new products present challenges in regulating this important segment of our financial markets.

NEED FOR PUBLIC CONFIDENCE IN THE INTEGRITY OF THE MARKET

Market participants and investors want regulators to provide clearer rules. Investors are demanding a greater sense of confidence in the integrity of the capital markets. As the emphasis shifts from trade execution to asset management and financial planning, regulators are being expected to establish standards which ensure the appropriate training and conduct of investment advisors and other registrants.

INCREASED DOMINANCE OF THE SECONDARY MARKET

Direct ownership of equities has increased dramatically in secondary markets. Explosive growth in use of the Internet has provided enhanced access and greater reliance on a wide range of information outside the framework of required securities regulatory filings (e.g. bulletin boards, whisper numbers etc.). The nature of the relationships between retail investors and intermediaries has also changed significantly. These trends present challenges to effectively maintain the integrity of the secondary market and to balance the range of investor needs for protection as well as their needs for clear and timely continuous disclosure of information.

NEED FOR CONTINUED EXPANSION OF OSC EXPERTISE

The OSC is committed to providing high quality, user-friendly services and faster response times. Increasingly competitive labour markets present a challenge for the OSC to attract and build upon staff expertise in order to effectively address increasingly complex issues and meet the needs of our constituents.

The resources of the Ontario Securities Commission will be focused on achieving a number of key objectives. We will:

1 > Redefine approaches to the financial regulatory framework.
2 > Strengthen the compliance-enforcement continuum.
3 > Enhance secondary market regulation and enhance the quality of continuous disclosure by reporting issuers.
4 > Enhance investor protection through investor education.
5 > Implement our fee reduction strategy.
6 > Foster development of an improved mutual fund governance framework.
7 > Strengthen the role of the OSC in the international securities regulatory community.
8 > Continue to develop and implement accountability mechanisms for the OSC.
9 > Promote development of the OSC as an employer of choice.

Performance Against 1999/2000 Objectives

- *Provide leadership in readying the capital markets for Y2K*
  Commission staff worked closely with industry participants supporting testing and contingency plan development in preparation for Y2K. Follow-up reviews and issuer disclosure programs were carried out.

- *Increase resources in Capital Markets, Corporate Finance and Enforcement*
  Significant staffing increases took place in these areas enabling the OSC to focus on compliance with continuous disclosure requirements, case assessment, investigations and enforcement. Fifteen routine compliance reviews of mutual fund dealers, 15 reviews of advisors and eight reviews for cause were completed. Compliance audits of the IDA and the Canadian Investor Protection Fund were completed. A report on the audit of the TSE was released in April 2000. The Continuous Disclosure team completed a Y2K disclosure review, commenced earnings management reviews and opened more than 60 continuous disclosure files. The turnaround times for prospectuses, applications and case assessments have improved significantly. The National Compliance Review was postponed to 2000/2001 to concentrate on Y2K contingencies.

- *Lead initiatives to redefine mandates and activities of all Canadian regulators of financial service providers*
  Legislation was brought into close alignment with other provinces through the passage of amendments to the *Securities Act*, the *Commodities Futures Act* and *The Toronto Stock Exchange Act*. Progress towards harmonization included finalizing the Mutual Reliance Review Systems Memorandum of Understanding and Prospectus and Application policies. Preliminary receipting and final prospectus checklists were aligned and a proposed CSA Regulatory Framework Summary was published for comment. Also published were recommendations for harmonization of regulation of mutual funds and segregated funds. A proposal to allow mutual funds to lend securities and use repurchase agreements was published for comment. The OSC participated in an initiative to develop standards for defined contribution pension plans and other capital accumulation plans and to review the use of pooled funds and mutual funds as products in such plans.

  A proposal for streamlining registration categories was completed. Requirements for a National Registration Database were developed, with implementation targeted for December 2001.

- *Work with the CSA to address issues arising from restructuring of exchanges*
  Criteria for recognition and the withdrawal of recognition were published in December 1999 and an order was signed in April 2000.

- *Provide an effective regulatory regime for existing, alternative and emerging trading systems including the Internet*
  A proposed rule of the regulation of alternative trading systems was published and comments were received. A revised rule will be republished and a Request for Proposal for an ATS Data Consolidator was completed and will be released in July 2000.

- *Complete a review of fees with CSA partners*
  A preliminary revenue model was developed, circulated to the CSA and industry members for comment, and revised incorporating comments received.

- *Support the establishment of the Mutual Fund Dealers Association (MFDA)*
  Draft criteria for recognition of the MFDA as a self-regulatory organization were developed and forwarded to the MFDA for response. An application by the MFDA for recognition as a self-regulatory organization was received. OSC staff led the CSA effort to review and comment on the MFDA recognition application, including reviewing the draft rules and by-laws of the MFDA and the MFDA's proposed business plan and revenue formula.

- *Represent Ontario in international organizations*
  Representatives of the Commission played key roles in several initiatives of the International Organization of Securities Commissions (IOSCO) including

development of international accounting standards for cross-border offerings, leading the task force on hedge funds and development of a paper on standards for market oversight.

- *Propose reforms of prospectus and continuous disclosure for mutual funds*
  A national rule requiring new prospectus disclosure documents for mutual funds was brought into force and a pro-active implementation plan was developed. Street-wide industry education and CSA staff training was carried out as part of the implementation plan. Review guidelines were developed to enable each new prospectus filed under the new system to be reviewed to ensure compliance with the CSA goals and form requirements of the new system.

- *Develop proficiency standards for financial planning*
  A proposed proficiency rule was developed and published for comment in December 1999. Working with industry participants and other regulators, a blueprint for a financial planning examination was completed.

- *Assist the Minister in establishing an advisory committee for five-year legislative review*
  In December of 1999, the Minister of Finance appointed an advisory committee to review the legislation, regulations and rules relating to matters dealt with by the Commission and the legislative needs of the Commission. The committee has issued a request for comment and will prepare a report of its review and recommendations for the Minister.

- *With the CSA, develop an Integrated Disclosure System*
  With the objective of achieving a more flexible offering process, and improving the standards for continuous disclosure, a proposal for an Integrated Disclosure System was published for comment in January 2000.

- *Complete the reformulation of the OSC's deemed rules into formal rules and policies*
  Eight rules or policies were implemented on a national basis. These include the Mutual Reliance Review System for Prospectus and Initial AIF's, Mutual Funds, Mutual Fund Prospectus Disclosure and the Early Warning System rules, which were developed with the CSA, and Ontario's reformulated rule governing take-over bid transactions. An additional 11 instruments were published for comment.

- *Publish a revised proposal regarding statutory civil liability for continuous disclosure*
  Staff members for the securities commissions in Ontario, British Columbia, Alberta, Saskatchewan and Quebec presented a report to the CSA Chairs which summarized the comments received in response to draft legislation published for comment. The report, if adopted, would introduce a limited statutory civil liability regime in respect of secondary market disclosure.

- *Develop a streamlined regulatory regime for private placements*
  To enhance capital market access for small and medium sized companies, a proposal to revamp the private placement regime was published for comment. Industry input has been received and a rule is being drafted for comment.

OTHER IMPORTANT INITIATIVES FOR 1999/2000:

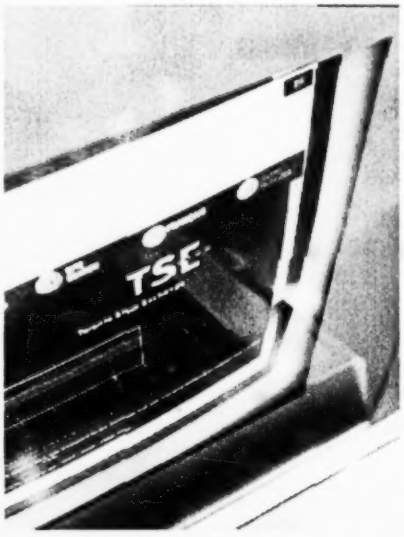
- Recommendations for improving mutual fund governance were completed and delivered to staff for review prior to finalization.
- In conjunction with the CSA, the Commission proposed a National Instrument to provide exemptions from insider reporting requirements for certain directors and senior officers of subsidiaries and affiliates of insiders.
- The OSC executed The Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organizations.
- In conjunction with the CSA, the Commission has developed a revised proposal for uniform terms of escrow that would apply to initial public distributions of securities by prospectus (IPOs).

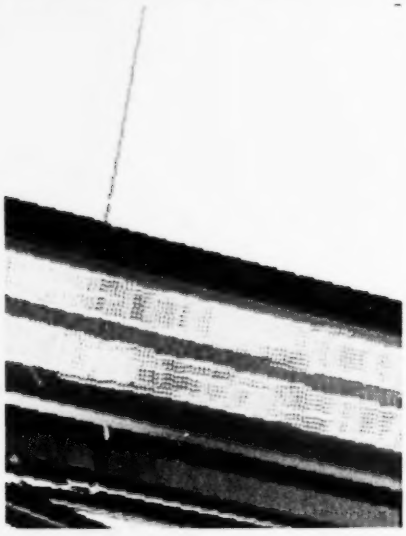
Two years ago, the TSE announced plans to move from an exchange in which member firms held seats to one owned by shareholders. As a self-regulating organization, they looked to the OSC to approve this transition. The demutualization, which would see the TSE become a for-profit exchange, required a new regulatory approach and the OSC's Market Regulation team was called upon to develop it.

Following approval of the continuance of the Exchange, the project team focused on developing recognition criteria. Several areas were addressed including corporate governance, access, financial viability and the TSE's own regulatory services area. According to Jennifer Elliott, Legal Counsel, Market Regulation, "Many issues were unique to this situation and required that we look beyond traditional regulatory models for solutions".

Responsiveness and innovation were key factors in making this project a success. As Jennifer explains, "Our role was to respond to the TSE's demutualization initiative creatively and constructively. As issues came up, we worked together to arrive at workable and effective solutions, trying not to burden the TSE with overregulation".

Alternative Trading Systems are also being examined by the Market Regulation team. As the demutualization project demonstrated, they are clearly up to the challenge.





Four members of the OSC Market Regulation team and three representatives from the TSE worked together in the past year on the demutualization of The Toronto Stock Exchange.

Investment was once a preserve of the wealthy few. Now it's an instrument of the middle class. While bank deposits have declined, share ownership has climbed. A survey conducted for the TSE found that almost 50% of Canadian adults own stocks, either directly or through mutual funds. This number has climbed from 37% just four years ago. The secondary market now accounts for 90% of all securities transactions. A nation of savers is becoming a nation of investors. These investors need access to quality and timely continuous disclosure.

So when the OSC's Continuous Disclosure team wanted to know what challenges companies were facing with respect to corporate disclosure and how the OSC could help public companies meet their corporate disclosure requirements, they went straight to the source.

As Lisa Enright, Senior Accountant on the Continuous Disclosure team, points out, "We wanted to find out what companies current disclosure practices are and what issues they are faced with in today's environment". As a starting point, the Continuous Disclosure team developed a 36-question, anonymous survey that was distributed to a random selection of 400 public companies. In addition, the team met with Joanne Brown, President of the Canadian Investor Relations Institute (CIRI). Lisa went on to note that "CIRI and the OSC have something in common, we both deal with issues that matter to all stakeholders in the economy. An ongoing dialogue with CIRI has been helpful to us in understanding what challenges companies face on a daily basis."

The Continuous Disclosure team has analyzed the survey results and discussed the findings with other organizations, including CIRI. "We now have a better understanding of the type of guidance needed and where the OSC's efforts should be focused. This summer the CD team will commence the full-scale implementation of the OSC's Continuous Disclosure Review Program. The Continuous Disclosure Review Program will result in every Ontario-based company being reviewed on a regular basis," said Lisa.

Out of 400 companies surveyed, 170 or 43% responded. Key findings include: 71% of companies did not have a written disclosure policy, 81% held one-on-one meetings with analysts and 27% did not have a "black out" period prior to scheduled earnings releases.

To complete restructuring and meet the demands of its mandate, the OSC faced a major challenge. The number of staff would need to grow from nearly 180 to more than 340 in less than two years. At the same time, productivity had to be maintained and employee satisfaction kept high. According to Ellen Hryniowski, the OSC's Manager of Human Resources, responding to a challenge like this required a comprehensive strategy and everyone's enthusiasm.

Positioning the OSC as an employer of choice was a key element of the strategy and it clearly worked. A total of 7,300 resumes were submitted for the advertised positions. Having agreed-upon selection criteria was also crucial. "Not only were we looking for the best qualified candidate for each position, we wanted people who had a strong desire to work in the public interest and who would be a good fit with the OSC," explains Ellen.

In some cases, entire departments were built from the Director level down. Recruitment took place in waves, first putting the Managers in place, and then helping managers to recruit their own teams. This allowed the organization to gradually absorb newcomers, providing proper training and orientation.

The OSC's team building efforts were a definite success. On a recent job satisfaction survey, the vast majority of employees rated the OSC as "above average" or "one of the best organizations" as a place to work.

Day 1

Corporate Services makes it a priority to make new hires feel welcome from their first day forward. An orientation is scheduled including an introduction to the OSC's information technology network.

Enforcement Calendar

Through fair and effective enforcement of Ontario securities laws, the OSC can protect investors and preserve the integrity of the capital markets. Highlights of enforcement actions completed during the 1999/2000 fiscal year are described below.

CHARGES LAID FOR INSIDER TRADING

The Commission alleges that **John Felderhof,** former Vice-Chairman of **Bre-X Minerals Ltd.**, had undisclosed knowledge relating to the Busang properties when he sold 2,720,500 shares of Bre-X for approximately $83.9 million, and that he permitted the issue of press releases containing misleading resource calculations for these properties. He was charged with eight counts of violating Ontario securities law.

REPRIMAND ISSUED

James T. Riley, a director and president of **York Bay Capital Group Inc.**, was reprimanded by the OSC for failing to file reports for 108 purchase and sale transactions of York Bay shares while he was an insider of the corporation.

Mutual fund dealer and limited market dealer **Visions Financial Group Inc.** was ordered to deliver monthly financial statements to the Commission and undergo an audit as of June 30, 1999 for failure to deliver financial statements within 90 days of year end.

CHARGES FILED FOR UNREGISTERED ACTIVITY

A collaborative investigation by the RCMP, the OPP and the OSC, resulted in charges against **Einar Bellfield** who is alleged to have traded in accounts at three Ontario brokerage firms in 1995, even though his trading exemptions were removed until January 31, 1999.

CHARGES OF INSIDER TRADING LAID

Glen Harvey Harper, President, CEO and Chairman of **Golden Rule Resources Ltd.**, was charged with insider trading relating to the 1997 sale of approximately 424,702 shares of Golden Rule Resources for $4,042,469 million.

Q2

SUMMER 1999

TAKE-OVER BID REQUIREMENTS CONTRAVENED

The OSC approved a settlement with **The Crabbe Huson Group Inc.** of Portland, Oregon after the company's admission that they contravened take-over bid requirements, early warning and insider trading reporting requirements when purchasing shares of Lytton Minerals Limited. Crabbe Huson paid US$120,000 to be used for the benefit of Ontario investors and $40,000 to cover the investigation's cost.

FAILURE TO DEAL FAIRLY WITH CLIENTS

The OSC concluded that **Marchment & MacKay Limited et al** failed to deal fairly, honestly and in good faith with their clients, and terminated the firm's registration immediately. Company president **Charles Ornstein** and salesperson **Jerry Saltsman** had registrations terminated for life. Company vice-president and compliance officer **Amit Sofer** and salespersons **Gregory Osborne** and **Fraser Plant** had registrations suspended for 10, 7, and 5 years respectively.

INADVERTENT BREACH OF SECURITIES LAW

The Commission approved a settlement with **Martin Shefsky** of **Toreal Holdings Limited**. It was agreed that the privately-held company's failure to file insider and other reports, and use of prohibitive transactions of shares of **Evans Health Group**, a publicly-traded company in which it held a controlling interest, was inadvertent. Shefsky can apply for registration after 90 days with the requirement that his activities be closely supervised.

NO BASIS FOR ALLEGATIONS

The investigation into the trading of shares of **Regal Goldfields Limited** was closed. The OSC found no evidence of improper trading of Regal's shares prior to the Nova Scotia government's announcement to permit mineral exploration and mine development on previously protected lands.

FOUR COUNTS OF VIOLATING ONTARIO SECURITIES LAW
On October 14, 1999, the OSC charged that **Michael Cowpland**, President and CEO of Corel Corporation, violated three counts of Ontario securities law. These charges are in relation to Cowpland having undisclosed information about Corel Corporation prior to the mid-August 1997 sale of 2,431,200 shares of Corel for $20.4 million. In addition, Cowpland is charged with providing misleading information to the Commission in May 1998. These matters continue to be before the courts.

FAILURE TO FILE FULL, TRUE, AND PLAIN DISCLOSURE
In six separate allegations, the OSC alleges that **YBM Magnex International Inc.**, its directors, officers and advisors, and two Canadian Securities dealers contravened Ontario securities laws in their failure to provide full, true, and plain disclosure in a prospectus, and for failing to comply with continuous disclosure obligations.

CONDUCT CONTRARY TO THE PUBLIC INTEREST

- Former **Fortune Financial Corporation** chief operating officer **Jennifer Dewling** admitted in a settlement agreement that her supervision of former Fortune Financial salesperson **Paul Tindall** and involvement in a capital deficiency were contrary to the public interest. The settlement agreement reached on November 11, 1999 stipulates that Dewling will not reapply for registration for four months, nor would she supervise any person's activities for an additional three months.
- The OSC issued a Notice of Hearing and Statement of Allegations against **David Singh**, former president of **Fortune Financial Corporation**, and **Paul Tindall**, former Fortune Financial salesperson. It is alleged that Tindall breached several securities regulations to mislead his clients, and that Singh was aware of Tindall's activities and assisted Tindall in concealing the illegalities. In addition, allegations state that Singh also breached securities law. A hearing is set for July 31, 2000.

ORDERS TO CEASE TRADING PERMANENTLY
A settlement hearing on November 3, 1999, resulted in the Commission ordering the termination of **Hilry Hilton Neale**'s registration and that he cease trading permanently. Neale had pled guilty to several criminal charges involving securities in April and June of 1999.

TEMPORARY CEASE TRADING ORDER EXTENDED
The temporary cease trading order for all current and former directors of **Semi-Tech Corporation** was extended. The order prohibits trading in securities of Semi-Tech and related companies until two business days following the receipt by the Commission of required filings.

FAILURE TO DISCLOSE TRUE NATURE OF INVESTMENTS
The OSC alleges that **Dual Capital Management Limited**, President **Warren Wall**, and Director and officer **Joan Wall** traded in securities – limited partnership units of Dual Capital Limited Partnership – without being registered with the Commission. In addition, it is alleged that they failed to file a prospectus, and failed to disclose to investors that funds accepted were not used as set out in the Offering Memorandum. Commission proceedings were adjourned pending the completion of the Provincial Offence proceeding.

Q4

WINTER 2000

CEASE TRADING ORDERS ISSUED

- In a settlement agreement, **Mikael Prydz** admitted that his conduct was contrary to the public interest. The OSC issued a cease trading order for a period of five years and a reprimand.
- Settlement agreements were reached with **Anwar Heidary** and **James Sylvester** who were alleged to have sold securities without being registered, and without providing a prospectus. Both are prohibited from trading in securities for a period of five years.

TERMS AND CONDITIONS OF REGISTRATION IMPOSED

In a precautionary move, the OSC imposed terms and conditions of registration on **Phoenix Research and Trading Corporation** after the company announced trading irregularities in one of its hedge funds. The terms and conditions allow OSC staff to work closely with Phoenix Research and Trading to safeguard the interests of investors.

TEMPORARY CEASE TRADING ORDER ISSUED

The OSC issued a temporary cease trading order against **DJL Capital Corp.** and **Dennis John Little** in response to allegations that DJL Capital and Little traded in securities without filing a prospectus, failed to disclose that funds accepted were not used as described in the Offering Memorandum, and that various representations made to investors were misleading. The temporary cease trading order is in effect until the conclusion of the hearing.

REPRIMAND FOR INADEQUATE SUPERVISION

Regal Capital Planners Ltd. has been ordered to pay $100,000 to the OSC and contribute $20,000 to the cost of investigation as part of a settlement agreement relating to the supervision of salesperson **Pierre Montpellier**. It is alleged that Montpellier sold over $4 million of investments in Foreign Capital Corporation, causing substantial losses for investors.

MD&A

The financial statements present the results of the Ontario Securities Commission for the year ended March 31, 2000. The following comments provide an analysis of the Commission's operations and should be read in conjunction with the financial statements.

ANALYSIS OF OPERATING RESULTS

EXCESS OF REVENUE OVER EXPENDITURES

Excess of revenue over expenditures for the twelve months ended March 31, 2000 was $41.1 million. In accordance with the provisions of the Securities Act, the Minister of Finance may require the Commission to remit funds which are surplus to its operating requirements to the Province of Ontario. During the twelve month period, the amount distributable from the Commission to the Province was $22.8 million (1999 - $37 million). The general operating surplus as at March 31, 2000 was $11.4 million (1999 - $0.5 million).

REVENUE

In 1999, $75.5 million was collected under the Securities Act and the Commodity Futures Act. Total revenue for 2000 was $82.4 million. This represents an increase of $6.9 million or 9.1%. This increase in revenue occurred despite a 10% overall fee reduction which was implemented in August 1999. The Commission has five primary sources of revenue:

- **Prospectus filings**, comprised of fees for preliminary and final filings and mutual fund renewals, accounted for 56.2% (1999 - 54.7%) of total revenues. Prospectus filings fee revenue rose by $5.1 million due to an increase in the number of market financing activities. These fees represent the most variable component of the Commission's revenue base given their close correlation to the level of market activity.
- **Registrations**, comprised of fees for registration of dealers, advisors and salespersons, accounted for 29.0% (1999 - 32.3%) of total revenues. Despite an increase in registration activity, registration fees declined 2.2% reflecting the impact of lower fees.
- **Disclosure filings**, comprised of fees related to filings by reporting issuers, accounted for 10.7% (1999 - 10.4%) of total revenues. Disclosure filings fees increased by approximately 12% to $8.8 million. Higher take-over bid activity was the key driver for this revenue increase.
- **Applications for Exemptive Relief**, generated through assessment of applications from issuers for exemptions or modifications to filing requirements, represented approximately 1.5% (1999 - 1.5%) of total revenues.
- **Investment income**, comprised of interest payments on deposits and other investments, accounted for 2.3% of total revenues. Investment income generated by deposits and other investments was $1.9 million. Investment income consists of interest earned on cash balances at a rate of 0.25% below bankers'

acceptance, as well as interest earned on the reserve fund which is invested in short and mid term instruments with the Ontario Financing Authority.

The Commission revenue forecast for 2001 is $73.1 million, 11% lower than the $82.4 million collected in 2000. The forecast reflects no material change in market activity levels. The projected reduction in revenue reflects the annualized impact of the 10% fee decrease implemented in August 1999, as well as the projected impact of a further 10% fee reduction effective June 2000.

In consultation with stakeholders and other CSA jurisdictions, the Commission is undertaking a comprehensive review of its current fees in order to streamline and simplify the fee structure and meet its commitment to align total fees with the cost of regulation by 2001. Preliminary consultations have been held with industry stakeholders and a proposed rule is expected to be published for comment in summer 2000. The June 2000 10% fee reduction is being implemented as another interim step to demonstrate the Commission's commitment to act on this important initiative.

EXPENDITURES

Total expenditures for 2000 were $41.3 million against a budget of $46.2 million. Total annual expenditures in 1999 were $30.5 million. The key contributors to the expenditure increase were as follows:

Salaries and Benefits account for approximately 60% of the Commission's total expenditures. Salaries and wages increased by $6.0 million in 2000 due to changes in staff levels. The OSC had a staff complement of 301 at the end of the year compared to 250 at the end of the previous year. The majority of new staffing is in direct program delivery with significant increases in Capital Markets (40%), Corporate Finance (40%) and Enforcement (36%). These resources have allowed the Commission to substantially increase its regulatory presence and effectiveness.

Professional Services account for approximately 19% of the Commission's total expenditures. Expenditures on professional services increased by $1.9 million in 2000 due to significant use of fee for service staff required to handle operational workload while the Commission was completing its staffing plan and to undertake various projects.

Approximately 25% of professional services costs related to addressing one time Year 2000 issues. Commission staff worked closely with industry participants to ensure necessary preparations were successfully carried out prior to the transition period. Preparations included assessment of industry infrastructure, oversight of industry testing and the development of market monitoring and contingency plans. Specialized review procedures were developed for Investment Dealers Association firms. Staff also completed a Y2K issuer disclosure program as well as selective registrant monitoring.

More than 40% of professional services costs were incurred for enforcement-related legal services and to address policy reformulation workload. The Commission expects to continue to have an ongoing need to use specialized external legal and forensic accounting resources.

Administrative costs account for approximately 8% of the Commission's total expenditures. Expenditures on administrative costs increased by 42.1% to $3.4 million (1999 - $2.4 million). The majority of this increase relates to higher spending on communications and publications. Another source of this increase was Commission expenses which doubled, reflecting significantly higher hearing activity. An increasingly active role in national and international issues resulted in a 44% increase in travel costs.

Occupancy costs account for approximately 7% of the Commission's total expenditures. Expenditures on occupancy increased by 12.8% to $3.1 million (1999 - $2.7 million). Occupancy expenses are projected to increase by 4.9% to $3.2 million in 2001. These increases reflect the costs for the additional space which the Commission has leased to accommodate its increased staff complement.

Amortization costs account for approximately 3.7% of the Commission's total expenditures. Expenditures on amortization increased to $1.5 million (1999 - $150K). Amortization costs are projected to increase by $1.4 million to $2.9 million in 2001. These higher amortization costs reflect the substantial increase in capital assets during 2000 as well as the Commission's

decision to capitalize leasehold improvements rather than have the costs integrated into its ongoing lease payments.

CAPITAL TRANSACTIONS

In order to accommodate significant staff growth, the Commission is in the process of renovating its leased space. Capital expenditures of $5.9 million (1999 - $2.8 million) were made during 2000. Approximately 70% of these expenditures, furniture ($1.3 million) and leasehold improvements ($2.8 million), related to the renovation of the Commission's leased space. Significant investments were also made in information technology ($1.8 million), including the upgrade of the Commission's internal computing network, the replacement of outdated computer equipment, and the provision of equipment for increased staff complement. These purchases reflect the Commission's plans to maintain state-of-the-art information technology capabilities.

The capital budget for 2001 is $4.1 million which is 30% lower than the $5.9 million spent in 2000. A substantial portion of the investment required to update information technology infrastructure was made in 2000. As a result, expenditures on technology related capital are projected to decrease by approximately 6%.

Expenditures on leasehold improvements and furniture are projected to decline in 2001 as the Commission has completed a significant portion of its premises renovations. Leasehold expenditures are expected to decrease by approximately 40% from $2.8 million to $1.6 million and furniture expenditures are expected to fall by 43% from $1.3 million to $0.7 million. The renovations are expected to be completed by the third quarter of the fiscal year.

LIABILITIES

Included in the accounts payables and accrued liabilities is $2.2 million (1999 - $2.1 million) relating to a provision for refunds of prospectus revenues. The amount of revenue to be realized from prospectus filings fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued as required based on actual proceeds. As a result, this revenue is recognized net of a provision for expected refunds. At the beginning of each fiscal year, the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. In 2000, the Commission refunded $5.0 million of prospectus fees of which $0.9 million related to prior year fees and $4.1 million related to current year fees.

In support of the development of the Mutual Funds Dealers Association (MFDA), the Commission has guaranteed 61% of a total $12 million line of credit as assistance during their startup of operations. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specific percentage of the total indebtedness. As at March 31, 2000, the MFDA had drawn $4.7 million on this credit line.

DESIGNATED SETTLEMENTS

During 2000, the total for designated settlements arising from enforcement proceedings increased from $1.1 million to $1.4 million. These funds are receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine, to be used for purposes that will benefit investors in Ontario. A committee has been established to review funding proposals and oversee the distribution of these funds. A total of $20,000 was allocated during 2000.

RESERVE

The Commission requires liquidity to finance its operations and capital purchases. As at March 31, 2000, the Commission held cash in the amount of $13.9 million (1999 - $5.9 million), current assets of $14.6 million (1999 - $6.7 million) and current liabilities of $10.5 million (1999 - $8.8 million) for a current ratio of 1.4:1 (1999 - 0.8:1).

The fact that a significant proportion of the current revenue base is dependent on the level of market activity is a source of risk for the Commission. As a result, the Commission has obtained approval from the Minister of Finance to establish a reserve fund of $20 million to be used as an operating contingency for revenue shortfalls or unexpected expenditures. The prime investment consideration for the reserve fund is the protection of capital and appropriate liquidity to meet unanticipated cash flow needs. During 2000, $7.5 million was retained towards the establishment of the reserve.

The Commission will be depositing $5 million into the reserve fund in April 2000 to bring the reserve to $20 million.

MEMORANDUM OF UNDERSTANDING

In accordance with the provisions of the Securities Act, the Commission is finalizing a Memorandum of Understanding with the Minister of Finance to outline the ongoing roles, responsibilities and accountability relationships between the two parties.

YEAR 2000 ISSUES

The Year 2000 transition was successfully completed without disruption to the Commission's internal systems. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Commission, including those related to customers, suppliers or other third parties, have been fully resolved.

2001 OUTLOOK

The Commission has budgeted 2001 operating expenditures of $51.5 million. The budget increase relates primarily to increased salaries and benefit costs which are projected to rise by 31% in 2001 to $32.4 million (2000 - $24.8 million). This increase reflects the annualized cost impact of hiring which occurred in 2000 and the planned increase in staffing in 2001. Total staffing is projected to reach 341 by March 2001.

The Commission has budgeted $7.5 million for professional services costs in 2001. The budget reflects a 3.5% decrease from 2000 expenditures. Key decreases in professional services costs are the elimination of Year 2000 costs and lower projected expenditures on reformulation of rules. However, these savings are largely offset by additional funding requirements for various new initiatives.

A budget of $1.25 million has been set for professional services costs related to the work which will be required towards implementation of the recently announced merger of the OSC and the Financial Services Commission of Ontario (FSCO). This new agency will provide more integrated regulation of capital markets and financial services sectors and is the next logical step in the evolution of the financial services regulatory framework. The merged entity will provide strong consumer and investor protection and education across all financial sectors. It will also contribute to timely regulatory responses to the changing structures of the capital markets and financial services industries. Legislation is required in order to create the proposed new organization and to specify its regulatory responsibilities and powers. Legislation supporting this initiative is expected to be introduced prior to the end of calendar 2000. The successful integration of these two operations will be a prime focus during the coming year.

Approximately $250,000 in funding for professional services has been budgeted to support the introduction of a national registration database. These costs represent a fraction of the overall development and implementation costs of this project. An external organization responsible for overseeing and managing the system will be financing the majority of the implementation costs and will recover these costs through system user fees. A vendor has been selected for development of the database system and implementation is targeted for December 2001.

In 2001, greater efforts will be made to enable investors to better protect themselves by providing improved access to information and placing more emphasis on investor education initiatives. The Commission will pursue this outcome both directly and through partnerships with other organizations. The Commission also plans to establish an investor learning and education foundation. Funding for foundation initiatives will be generated through designated settlements paid to the Commission.

Management's Responsibility and Auditor's Report

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.

D A Brown (signed)

May 11, 2000

David A. Brown
Chair and Chief Executive Officer

AUDITOR'S REPORT

To the Ontario Securities Commission,
I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2000 and the statements of operations and operating surplus and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Erik Peters (signed)

Toronto, Ontario
May 11, 2000

Erik Peters, FCA
Provincial Auditor

Balance Sheet

As at March 31, 2000	2000	1999
ASSETS		
Current		
Cash	**$ 13,932,907**	$ 5,861,963
Accounts receivable	**459,817**	758,448
Prepaid expenses	**191,423**	121,012
	14,584,147	6,741,423
Designated settlements *(Note 3)*	**1,445,692**	1,100,000
Reserve fund assets *(Note 4)*	**15,000,000**	7,500,000
Capital assets *(Note 6)*	**7,418,411**	3,002,827
	$ 38,448,250	$ 18,344,250
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 10,016,679**	$ 6,517,820
Due to Province of Ontario *(Note 8(a))*	**309,684**	1,858,061
Current portion of obligation under capital leases *(Note 7(b))*	**161,720**	453,759
	10,488,083	8,829,640
Obligation under capital leases *(Note 7(b))*	**41,622**	271,618
	10,529,705	9,101,258
Designated settlements *(Note 3)*	**1,445,692**	1,100,000
SURPLUS		
Operating		
General	**11,374,609**	544,748
Reserve *(Note 4)*	**15,000,000**	7,500,000
	26,374,609	8,044,748
Contributed	**98,244**	98,244
	26,472,853	8,142,992
	$ 38,448,250	$ 18,344,250

See accompanying notes to Financial Statements.

On behalf of the Commission

D A Brown (signed)

David A. Brown, Q.C., *Chair*

KD Adams (signed)

Kerry D. Adams, FCA, *Commissioner*

Statement of Operations and Operating Surplus

For the Twelve Months Ended March 31, 2000	2000	1999
REVENUE		
Fees		
Prospectus filings	$ 46,326,353	$ 41,275,685
Registration	23,866,333	24,403,354
Disclosure filings	8,802,297	7,860,050
Applications for exemptive relief	1,270,017	1,101,133
Secondary market	–	286,298
Recoveries	63,000	505,000
Miscellaneous	142,605	71,987
Investment income	1,909,539	–
	82,380,144	75,503,507
EXPENSES *(Note 8(c))*		
Salaries and benefits *(Note 9)*	24,757,568	18,802,819
Professional services *(Note 10)*	7,769,988	5,844,422
Administrative	3,408,421	2,397,816
Occupancy *(Note 7(a))*	3,050,949	2,704,469
Other	799,888	556,081
Amortization	1,512,977	149,813
	41,299,791	30,455,420
EXCESS OF REVENUE OVER EXPENSES	41,080,353	45,048,087
OPERATING SURPLUS, BEGINNING OF PERIOD	8,044,748	44,748
LESS: Distributions to Province of Ontario *(Note 8 (a))*	22,750,492	37,048,087
OPERATING SURPLUS, END OF PERIOD	$ 26,374,609	$ 8,044,748
Represented by:		
General	$ 11,374,609	$ 544,748
Reserve	15,000,000	7,500,000
	$ 26,374,609	$ 8,044,748

See accompanying notes to Financial Statements

Statement of Cash Flows

For the Twelve Months Ended March 31, 2000	2000	1999
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenue over expenses	**$ 41,080,353**	$ 45,048,087
Adjustments for amortization	**1,512,977**	149,813
	42,593,330	45,197,900
Changes in non-cash working capital:		
Accounts receivable	**298,631**	(698,465)
Prepaid expenses	**(70,411)**	14,884
Due to Province of Ontario	**(1,548,377)**	1,858,061
Obligation under capital leases	**(522,035)**	725,377
Accounts payable and accrued liabilities	**3,498,859**	103,638
	1,656,667	2,003,495
	44,249,997	47,201,395
Cash flows from financing activities		
Distributions to Province of Ontario	**(22,750,492)**	(37,048,087)
	(22,750,492)	(37,048,087)
Cash flows from investing activities		
Reserve fund assets	**(7,500,000)**	(7,500,000)
Purchase of capital assets	**(5,928,561)**	(2,807,532)
	(13,428,561)	(10,307,532)
NET INCREASE (DECREASE) IN CASH POSITION	**8,070,944**	(154,224)
CASH POSITION, BEGINNING OF PERIOD	**5,861,963**	6,016,187
CASH POSITION, END OF PERIOD	**$ 13,932,907**	$ 5,861,963

See accompanying notes to Financial Statements.

Notes to the Financial Statements

For the Year Ended March 31, 2000

Notes

1 > NATURE OF THE CORPORATION

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the 'Commission') as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2 > SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Computer equipment under capital leases	2 years
Leasehold improvements	over term of lease

b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued, as required, based on actual proceeds in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Continuous disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is recognized as revenue upon date of decision unless management determines there is no reasonable assurance as to ultimate collection. When there is no reasonable assurance as to ultimate collection, revenue is recognized when cash is received.

c) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

3 > DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine, to be used for purposes that will benefit investors in Ontario. During 2000, the Commission established a Committee to review funding proposals and oversee distribution of these funds. The accumulated funds are held in a segregated bank account. As at March 31, 2000, the accumulated balance is determined as follows:

	2000	1999
Opening Balance	$ 1,100,000	$ –
Settlements	359,056	1,100,000
Interest	6,636	–
Payments	(20,000)	–
Closing Balance	$ 1,445,692	$ 1,100,000
Represented by:		
Cash	$ 895,692	$ –
Settlements Receivable	550,000	1,100,000
	$ 1,445,692	$ 1,100,000

4 > RESERVE

As part of the approval of its self-funded status, the Commission was allowed to establish a $10.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. In April, 1999, the Commission obtained approval to increase the reserve to $20.0 million over a three year period. In 1999, $7.5 million was retained and an additional $7.5 million was retained in 2000, for a total of $15 million. The accumulated funds, at March 31, 2000, have been invested in short-term and mid-term instruments with the Ontario Financing Authority. Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet unanticipated cash flow needs. On April 11, 2000, the Commission transferred an additional $5 million to the Reserve.

5 > COMMITMENTS AND CONTINGENCIES

a) The Commission has guaranteed 61% of a total $12 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2000, the MFDA has drawn $4,670,000 (1999 - $640,000) on this line of credit. Interest is charged at prime plus 0.50% per annum.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

6 > CAPITAL ASSETS

	Cost	Accumulated Amortization	2000 Net Book Value	1999 Net Book Value
Office furniture	$ 1,390,642	$ 37,634	$ 1,353,008	$ 105,994
Office equipment	70,670	7,409	63,261	68,050
Computer hardware and related applications	4,013,137	1,201,881	2,811,256	1,997,058
Computer equipment under capital leases	831,725	415,862	415,863	831,725
Leasehold improvements	2,775,023	–	2,775,023	–
	$ 9,081,197	$ 1,662,786	$ 7,418,411	$ 3,002,827

7 > LEASE OBLIGATIONS

a) Operating

The Commission is committed to operating lease payments for office space for the next 5 years as follows:

2001	$ 2,886,225
2002	2,886,225
2003	2,886,225
2004	2,497,777
2005	$ 2,420,087

The commitment on 11,173 square feet of space currently occupied by the Commission expires on May 31, 2003, at which time the Commission has the option to renew for an additional two years and three months at the prevailing market rate.

b) Capital

On termination of the service delivery agreement with the Ministry of Finance (Note 8(c)), lease obligations for computer equipment that were entered into by the Ministry were transferred to the Commission and recorded at the present value of the minimum lease payments as at November 1, 1998. The present value of the lease payments for any new lease subsequently entered into by the Commission has been added to this value. All capital leases expire on or before December 31, 2001. As at March 31, 2000, total obligation under capital leases amounted to $203,342 of which $161,720 is due within one year. Interest owing on capital leases amounts to $9,833.

8 > TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In accordance with this provision, the Minister has requested the Commission to remit fee revenues which are in excess of its operating requirements. The Commission includes fixed asset funding in its operating requirements.

b) The Commission has entered into a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) On November 1, 1997, the Commission entered into a service delivery agreement with the Ministry of Finance for the provision of regulatory and related support services to the Commission, at cost. The service delivery agreement ended October 31, 1998. The following expenditures were incurred by the Ministry of Finance on behalf of the Commission and are included in the Commission's expenditures. Figures for the seven month period ended October 31, 1998 are provided below:

	For the period April 1, 1998 to October 31, 1998
Salaries and Benefits	$ 9,246,847
Professional Services	2,581,749
Occupancy	1,788,980
Administrative	873,109
Travel	219,283
	$ 14,709,968

9 > PENSION PLANS

Effective November 1, 1998, the Commission began to provide pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP) established by the Province of Ontario. The Commission's contribution to the pension plan for the year ended March 31, 2000 was $1,151,556 (1999 – $372,071) and is included in salaries and benefits.

The Commission also maintains supplementary unfunded pension plans for certain full-time members of the Commission. The benefits earned to date by these members do not represent a material obligation to the Commission.

10 > TRANSACTIONS WITH THE CANADIAN G-30

In September 1998, the Commission entered into a cost sharing arrangement with the Canadian G-30 Committee (a group which represents various securities industry participants). The Commission agreed to assume the leadership role on a Year 2000 related project.

The goal of the project was to develop and implement industry-wide testing for Year 2000 preparedness, which was completed during the year. During 2000 the Commission spent $2,350,865 (1999 - $1,539,797) on this project of which $711,241 (1999 - $1,112,296) was funded by the Canadian G-30. The net expenditure of $1,639,624 (1999 - $427,501) is included in professional services.

11 > UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers or other third parties, have been fully resolved.

12 > SUBSEQUENT EVENTS

In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

13 > COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.

Ontario Securities Commission Public Salary Disclosure

NAME	POSITION	SALARY PAID	TAXABLE BENEFITS
Abols, Imants	Legal Counsel	$ 113,156.59	$ 217.80
Brown, David	Chair	$ 517,248.84	$ 884.04
Butler, Brian	Manager, Investigations	$ 154,218.88	$ 355.12
Byrnes, Robert	Deputy Director Information Technology	$ 129,292.79	$ 668.28
Carchrae, John	Chief Accountant	$ 149,410.41	$ 264.42
Carscallen, Morley	Commissioner	$ 165,630.15	$ 0.00
Conacher, Mark	Director, Corporate Relations	$ 147,809.87	$ 351.08
Cowdery, Rebecca	Manager, Investment Funds	$ 137,265.89	$ 246.00
De Verteuil, Michael	Senior Forensic Accountant	$ 114,507.30	$ 305.44
Dempsey, Paul	Legal Counsel	$ 100,656.78	$ 184.35
Dublin, Julia	Senior Legal Counsel	$ 124,944.77	$ 344.80
Fallone, Joanna	Manager, Case Assessment	$ 162,161.25	$ 255.60
Fergusson, Rosemary	Senior Accountant	$ 133,423.51	$ 467.24
Ferrari, Antonietta	Manager, Compliance	$ 143,505.88	$ 176.99
Franken, Heidi	Manager, Continuous Disclosure	$ 101,088.75	$ 251.40
Geller, John	Vice Chair	$ 467,222.46	$ 424.80
Hendrickson, Barbara	Senior Legal Counsel	$ 103,272.98	$ 196.32
Kohl, Robert	Senior Legal Counsel	$ 129,041.06	$ 235.68
Koor, Elle	Senior Accountant	$ 137,862.88	$ 222.95
Liu, Winfield	Senior Legal Counsel	$ 133,553.97	$ 344.80
Ljubic, Gregory	Senior Investigation Counsel	$ 115,907.99	$ 471.03
Macfarlane, Charles	Executive Director	$ 355,368.49	$ 579.48
MacLaren, Tanis	Head Office of International Affairs	$ 148,891.68	$ 255.60
Moseley, Timothy	Manager, Litigation	$ 142,754.28	$ 245.80
Naster, Jay	Special Counsel	$ 140,225.26	$ 246.00
Pare, Maxime	Senior Legal Counsel	$ 108,689.73	$ 319.36
Paul, Margo	Manager, Corporate Finance	$ 139,590.80	$ 236.86
Pavalow, Randee	Manager, Market Regulation	$ 147,938.13	$ 364.72
Pilipavicius, Rima	Senior Forensic Accountant	$ 117,987.47	$ 196.32
Soden, Kathryn	Director, Corporate Finance	$ 175,353.69	$ 375.70
Spencer, Mary	Director, Corporate Services	$ 172,347.55	$ 285.24
Superina, Johanna	Senior Litigation Counsel	$ 107,308.58	$ 202.56
Too, Byron	Manager, Application Services	$ 102,721.62	$ 179.12
Vranic, Iva	Manager, Corporate Finance	$ 122,979.87	$ 424.75
Watson, Michael	Director, Enforcement	$ 126,971.92	$ 162.24
Wetston, Howard	Vice Chair	$ 317,038.90	$ 2,921.85
Whiler, Rick	Senior Accountant	$ 134,833.74	$ 217.80
Wolburgh Jenah, Susan	General Counsel	$ 157,452.53	$ 278.94

Prepared under the Public Salary Disclosure Act, 1996

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